

Greenfield and brownfield investing

Interview with Martin Lennon

These are propitious times for European infrastructure managers. The European Commission has estimated that around **EUR200 billion is needed to upgrade Europe's infrastructure** during the current decade for transmission grids and gas pipelines.

"Clearly the opportunity set in infrastructure is vast and continuing," comments Martin Lennon, Co Founder and Head of Infracapital, one of Europe's leading infrastructure investors. Part of M&G Prudential, Lennon co-founded Infracapital with Ed Clarke in 2001, since when it has subsequently raised and managed more than GBP5 billion across five funds.

"Existing infrastructure in Europe needs to be kept relevant in today's world. There are some significant trends such as increased urbanisation, climate change and the shift to green energy and electric transportation, etc, which are putting stresses on existing infrastructure. But it is also creating significant opportunities for new infrastructure projects. We think the private sector has an important role to play."

Infracapital is one of few infrastructure managers who has dedicated funds providing solutions for greenfield investment needs, alongside its established brownfield / operating infrastructure investment strategy.

Infracapital Greenfield Partners I LP was established in 2017 with GBP1.25 billion to invest in the later stage development, construction and expansion of projects and companies across a variety of sectors in Europe. Although greenfield projects involve investing earlier in the lifecycle of an asset, Infracapital does not set out to be an early stage developer. Rather, it partners with developers to help them take greenfield projects through construction.

"In the brownfield space, we like it when we see existing operational infrastructure assets



Martin Lennon, Co Founder and Head of Infracapital

that we can deploy further capital to and help grow. The sector knowledge that we have, both in executing transactions and managing assets, is important, in both sourcing such opportunities and supporting their growth. Greenfield projects are pre-operational but the construction phase represents a relatively short period in the overall life of a greenfield fund. Nevertheless, it requires a specialist set of skills to manage greenfield projects through to operation, at which point we run the businesses like our other brownfield assets.

"From a network relationship point of view, there is a complementary element to greenfield and brownfield investing and enhances what we do. We have broad relationships across financiers, asset owners, entrepreneurs; partners of all types," explains Lennon.

As for brownfield investing, Infracapital's latest investment vehicle, Infracapital Partners III, recently closed with GBP1.85 billion, exceeding its target of GBP1.5 billion. The Fund will invest in and actively manage assets across Europe, predominantly in the transport, utilities, renewable energy and communications sectors.

"There are important differences in the investment policies between the two and while we do have a material overlap of investors who are interested in both strategies, we also have an important group of investors who prefer one to the other," says Lennon.

"One of the characteristics of a greenfield fund compared to a brownfield fund is we would be looking for the latter to deliver real yield almost immediately, from the point of ownership of a new asset. In a greenfield fund, there is likely to be a slower commencement of yield throughout the fund lifecycle. Some investors prefer this as once a greenfield portfolio becomes operational it should produce a higher yield than a brownfield fund. This is because

you're coming in at cost as opposed to a secondary market price."

With more direct investor capital coming in to the 'real assets' space, competition is heating up, with more money chasing fewer deals and pushing prices up as a result.

Lennon points out that Infracapital avoids being in auction processes "where you run the risk that your principal tool for success is paying the highest price".

"That's not always the best way to generate value for clients. The mid-market is interesting for us, across both strategies, because it offers the opportunity to actually source and originate investments that are, perhaps, more limited in terms of competition; and which sometimes have no competition at all. We therefore focus on finding genuine, off-market bilateral conversations and converting them into deals. It is a fundamental part of how we create value," explains Lennon.

Originating and developing a pipeline of deals is fundamental to any infrastructure investor, even more so when seeking out greenfield projects; Infracapital's team has transacted on seven greenfield deals, to date.

One such example is a joint venture with Amerenco Solar, creating a platform (Infram Energy), to invest in greenfield renewable energy assets across France, Ireland and other European markets.

The solar projects, some of which already fully operational, are backed by a 20-year Feed In Tariff. The company has continued developing and acquiring greenfield projects in France and has a strong pipeline for renewable energy projects across Europe. It expects to invest in approximately 100MW of projects per annum over the coming years.

As for brownfield assets, Infracapital has just acquired a majority stake in CCNST, a leading provider of broadband services in Germany, becoming the first portfolio company of Infracapital Partners III.

"We are still finding an array of investment opportunities across key sectors," says Lennon. "One space which we are pretty active in is fibre optics. The old copper wires that were the mainstay of telecommunications and broadband networks are no longer fit for purpose in light of increasing demand that businesses and consumers want today. Fibre optic



solutions are emerging and delivering faster, more predictable connectivity. This is fast becoming the new essential communication utility now and for the next generation."

While there are opportunities to be a first mover investor in European greenfield projects, equally there are a good number of attractive, established businesses (like CCNST) that need injections of private capital to fully maximise their potential.

"From a brownfield viewpoint, we see opportunities to support established businesses which have significant future potential to achieve their aims; these are investments that benefit society as a whole, not just our investors.

"In respect to renewables, we've been very successful in district heating but while we continue to see opportunities, the value does vary considerably from country to country. It's important to choose one's markets carefully. We see a lot more energy-related opportunities either coming from corporate separations or sales, or resulting from the new and changing demands of an increasingly decentralised market with a focus on smaller scale renewable energy generation" says Lennon.

An example is the Dutch utility company Eteck Energie Bedrijven BV ("Eteck"), for which Infracapital acquired a 60 per cent equity stake last July. Eteck is the country's market leader in sustainable collective heating systems, which provide smaller scale heating co-located with the buildings it services.

Lennon explains that within the renewables space, it is becoming relatively harder to make the numbers work for operational solar and wind assets in most of the mainstream jurisdictions (e.g. UK): "However, we do see the opportunity to make attractive returns on the greenfield side of that equation; building new solar and wind farms is a more attractive proposition in many established European markets than brownfield assets. The Amarengo joint venture is a good example of this.

"As the industry evolves, we hope to be able to make a positive impact and deliver significant investment to help build for the future, providing first class infrastructure that meets the changing needs of society and supports long-term economic growth across Europe." ■